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# Review of the lump-sum arrangement of the Office of the United Nations High Commissioner for Refugees

## Report of the Secretary-General

*Summary*

The present report is submitted in compliance with paragraph 23.20 of A/56/6 (Sect. 23), pursuant to which the Office of the United Nations High Commissioner for Refugees would review after three bienniums, the lump-sum arrangement which began in the biennium 2002-2003 to fund a portion of the Office's management- and administration-related costs under the United Nations regular budget. In addition, the United Nations regular budget provides funding for the posts of High Commissioner and Deputy High Commissioner.

As a consequence of the review, the Secretary-General would recommend that the current lump-sum arrangement be maintained, given that, in the past three bienniums, the current arrangement has streamlined and simplified the budgetary presentation and provided more flexibility to the Office.

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# I. Introduction

1. In accordance with article 20 of its statute, the Office of the United Nations High Commissioner for Refugees (UNHCR) is financed under the budget of the United Nations. Unless the General Assembly subsequently decides otherwise, no expenditure, other than administrative expenditures relating to the functioning of the Office, is borne by the budget of the United Nations, and all other expenditures relating to the activities of UNHCR are to be financed by voluntary contributions.

2. Prior to the programme budget for the biennium 2002-2003, UNHCR presented its resource requirements under the regular budget for its posts and the related non-post requirements and was subject to the same budgetary process as other sections of the programme budget for regular budget post and non-post requirements.

3. Starting from the biennium 2002-2003, the regular budget provided for (a) two posts, i.e., those of High Commissioner and Deputy High Commissioner, and (b) a lump-sum amount for a portion of the other management- and administration-related costs of UNHCR.

4. These funding arrangements, provided through a grant, have simplified the work of UNHCR by eliminating the need for separate administrative procedures in respect of half of the management and administration posts, and consequently have streamlined and simplified the budgetary process, given that the regular budget represents only a fraction of the overall budget of UNHCR. They have been well suited to the highly operational nature of UNHCR activities, providing the necessary flexibility as well as an incentive to manage resources within the limits of an overall budget ceiling (see A/60/7, paras. VI.23 and VI.25).

5. Further efforts are currently under way to improve the Office's responsiveness to the needs of its beneficiaries by channelling more of its resources into operations (A/62/12, para. 58). UNHCR is undergoing structural and management change aimed at reducing administration and headquarters costs and locating staff and services where they are most effective. UNHCR implemented its initial phase of outposting a number of its centralized administrative and support functions to the newly established Global Service Centre in Budapest with effect from 1 January 2008. UNHCR had initially anticipated that, following the recuperation of its initial investment in the establishment of the new Centre, starting in 2010 savings accruing from the outposting would be in the range of $10 million annually (A/62/12, para. 60).

# II. Budgetary process prior to lump-sum arrangement

6. Prior to the lump-sum arrangement, UNHCR post and non-post resource requirements were subject to the same detailed budgetary process as was followed for other sections of the programme budget. For example, the proposed programme budget for the biennium 2000-2001 (A/54/6 (Sect. 23)), totalling $45,650,200, was fully justified to cover (a) the cost of 220 posts (1 Under-Secretary-General, 1 Assistant Secretary-General, and 2 D-2, 10 D-1, 19 P-5, 41 P-4/3, 15 P-2/1 and 131 General Service category) in the amount of $42,770,600; (b) other staff costs of $1,789,000; (c) general operating expenses of $1,011,900; and (d) supplies and materials in the amount of $78,700.

7. Given that the total funding from the United Nations regular budget represented only 2.6 per cent of the total budget of UNHCR ($1,730,028,400) for the biennium 2000-2001, the arrangements were found to be cumbersome for the Office, as it had to administer and report separately on the posts funded by the regular budget, which required additional workload, namely:

(a) Maintenance of separate budget and expenditure records to isolate transactions for the regular budget from other UNHCR funds;

(b) Exclusion of regular budget transactions from UNHCR financial statements to avoid duplication of expenditure reporting by the two United Nations entities;

(c) Maintenance of a separate staffing table for posts funded under the regular budget;

(d) Monthly reporting to Headquarters on any changes to each regular budget post and on vacant posts;

(e) Reconciling of transactions incurred under the regular budget between the amount recorded in the United Nations financial statements and the amounts reported in various UNHCR reports;

(f) Extensive explanation to the Executive Committee regarding the cost incurred for the posts funded from the regular budget to reconcile the amounts reported in the United Nations financial statements and in the UNHCR annual programme budget document.

8. It was decided that a review should be undertaken on the funding of UNHCR from the regular budget to determine whether other budgetary arrangements, such as a lump-sum grant, would be administratively more effective (A/52/6 (Sect. 23), para. 23.14).

## III. Lump-sum grant arrangement

9. In its review, UNHCR took into consideration article 20 of its statute on the financing from the budget of the United Nations as well as the view of the Advisory Committee on Administrative and Budgetary Questions on the term "administrative expenditures" (see A/2157, part III), which has been interpreted to mean expenses other than operational expenses and the related management costs. Pursuant to a request of the Advisory Committee, UNHCR also considered the extent to which past budgetary agreements/disagreements on the role between voluntary contributions and regular resources had contributed to a weak financial situation (A/54/7, para. VI.22).

10. As a result of the interpretation of the term "administrative expenditures" to mean expenses other than operational expenses and related management costs, UNHCR and the Secretariat agreed that a distinction should be made between operational and non-operational staff, and that operational support staff, including related costs, should be financed exclusively from the voluntary funds administered by the High Commissioner.

11. In an effort to ensure consistency with the categories used by the United Nations Development Programme, the United Nations Children's Fund and the

United Nations Population Fund, UNHCR embarked on an exercise to redefine and recategorize its posts into three categories, namely management and administration, programme support and programme posts. Management and administration posts are at headquarters only; programme support posts at both headquarters and in the field; and programme posts in the field only. The management and administration category was found to be consistent with the type of posts (non-operational) funded by the regular budget prior to the redefinition and recategorization. The number of management and administration posts identified by UNHCR at the time of the exercise amounted to 433. The number of posts financed by the regular budget for the biennium 2000-2001 had amounted to 220, which represented 50.8 per cent of the number of posts categorized as management and administration posts.

12. For the biennium 2000-2001, the amount of $2,326,300 had been provided from the regular budget towards UNHCR non-post administrative expenditures (other staff costs, general operating expenses, supplies and materials). Using as a basis the 50.8 per cent funded by the regular budget in respect of management and administration posts and applying it to the estimated non-post costs of $28,355,400 for the management and administration category would have resulted in an increase in the regular budget contribution towards non-post administrative expenditure from $2,326,300 to $14,404,500. Taking into account the budgetary constraints of the United Nations at that time, it was not considered that such a substantial increase in the Organization's contribution to UNHCR could be included in the regular budget proposals for the biennium 2002-2003. It was considered that at that stage an increase of $2 million, or 5.1 per cent, could be proposed for the biennium 2002-2003, with subsequent increases to be considered in the context of proposals for each subsequent biennium, but not to exceed $2.5 million (A/60/7, para. VI.22).

13. With regard to the review of the arrangement for funding UNHCR from the United Nations regular budget, it was determined that the provision of a grant would simplify the work of the Office by eliminating the need for separate administrative procedures in respect of half of the management and administration posts. The posts of High Commissioner and Deputy High Commissioner would, however, continue to be funded from the regular budget and shown separately from the grant. As a result, the level of resources attached to those two posts would not be included in the amount proposed for the grant.

14. Accordingly, the level of the grant for the biennium 2002-2003 was based on the revised appropriation approved by the General Assembly at its fifty-fifth session and the additional amount of $2 million representing the increase referred to in paragraph 12 above. Further, the grant would be subject to adjustment for currency and inflation for costs at Geneva. A subsequent review of the level of the regular budget contribution would take place in the context of the preparation of future programme budgets. However, the posts of High Commissioner, at the Under-Secretary-General level, and Deputy High Commissioner, at the Assistant Secretary-General level, would continue to be subject to the same budgetary presentation as posts funded from the regular budget in other sections of the programme budget.

15. Hence, beginning with the 2002-2003 biennium, UNHCR has received funding from the United Nations regular budget for the posts of High Commissioner and Deputy High Commissioner, specifically, and, separately, a lump-sum grant for a portion of the other management- and administration-related costs.

# IV. Proposed retention of the lump-sum grant arrangement

16. The change to the lump-sum grant arrangement has eliminated the need for extensive explanation to the Executive Committee of UNHCR of the difference between the amounts reported in the financial statements of the United Nations and in the UNHCR annual programme budget document. It has allowed UNHCR to record the United Nations regular budget component as a contribution, with the income allocated to the management and administration costs of the Office, and to present a reconciled and holistic picture of both the budget and expenditures.

17. At the time the decision was taken to move to the lump-sum arrangement, the UNHCR payroll was managed by the United Nations Office at Geneva. Under that Office at Geneva administration, it was possible to have all UNHCR staff paid from the same source and still have the expenses split between UNHCR and the United Nations regular budget. Technically, this was facilitated by initially recording all expenses in the accounts of the United Nations Office at Geneva and transferring back to UNHCR only those costs not funded from the regular budget.

18. In 2004, UNHCR began using PeopleSoft for its financials and supply chain accounting needs. In June 2007, UNHCR implemented PeopleSoft for the management of its payroll, post management and human resources management systems. All of those systems have been designed to address the comprehensive needs of the Office. Had the development of those systems been obliged to support the separation or exclusion of transactions funded from the regular budget, development and roll-out costs would have been higher. The use of PeopleSoft has had the following consequences:

(a) UNHCR has de-linked from the United Nations Office at Geneva and no longer keeps an interface with the United Nations accounting structure. It is therefore currently not possible to extract from UNHCR payroll systems transactions reported in the format required by the United Nations accounting structure. Should UNHCR need to forward payroll transactions to the United Nations, specific mappings would need to be maintained. Currently, reporting to the United Nations is done on an Excel spreadsheet with a summary of transactions at the account level;

(b) UNHCR does not have the payroll system capacity to isolate the regular budget transactions from other UNHCR transactions. Such isolation would require significant modifications to the various systems, with associated costs;

(c) The UNHCR human resources system does not have the capacity to maintain different staffing tables. Currently, posts funded by the regular budget grant are reported as UNHCR posts and are isolated from other funds through the use of programme coding only. The system would need to be modified to generate separate reporting on posts funded by the United Nations regular budget and other UNHCR posts.

19. Furthermore, UNHCR standard costs for posts are higher than United Nations standard costs as a result of the rotation policy of the Office. Therefore, budgeting for posts based on United Nations parameters does not always correspond to UNHCR parameters.

20. UNHCR policy requires staff in the Professional category to rotate, resulting in frequent changes to staff members' records that have to be communicated to

Headquarters every time they are made. Under the lump-sum arrangement, UNHCR reports to Headquarters on a monthly basis, on the status of the post only, not on the staff member.

21. Concerns have been expressed regarding the lump-sum arrangement, including by the General Assembly in its resolution 56/253, in which it requested the Secretary-General to review the funding of UNHCR from the regular budget in a transparent manner, and by the Advisory Committee on Administrative and Budgetary Questions in its request for an analysis of the way the amount requested had been arrived at (A/60/7, para. VI.25). To address those concerns, during deliberations on the proposed programme budget for the bienniums 2006-2007 and 2008-2009, the Advisory Committee was provided with detailed estimates of the funding from the regular budget, even though the Committee had acknowledged that providing an object-of-expenditure breakdown in the proposed programme budget was inconsistent with the lump-sum approach.

22. In conclusion, the arrangement to provide a lump sum from the United Nations regular budget to UNHCR has indeed provided flexibility and simplified the work of the Office by eliminating the need for separate administrative procedures in respect of the management and administration posts funded under the United Nations regular budget. Based on those positive experiences, it is recommended that the arrangement be maintained.

## V. Action required of the General Assembly

23. **The General Assembly may wish therefore to:**

(a) **Take note of the present report;**

(b) **Endorse the maintenance of the lump-sum arrangement for funding of UNHCR in future budget presentation of the proposed programme budget.**